

CITY OF CARBON

**INDEPENDENT ACCOUNTANT'S REPORT
ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS**

**FOR THE PERIOD
DECEMBER 1, 2015 THROUGH MAY 31, 2016**

Table of Contents

	<u>Page</u>
Officials	3
Independent Accountant's Report on the Status of Periodic Examination Findings and Recommendations	4
Status of Findings and Recommendations Previously Reported in the City's Periodic Examination Report:	<u>Finding</u>
Segregation of Duties	A 5
Bank Reconciliations	B 5
Clerk's Report	C 5-6
City Council Minutes	D 6
Investment Policy	E 6
Official Depositories	F 6
Certified Budget	G 7
Annual Financial Report	H 7
Payroll	I 7
Electronic Check Retention	J 8
Financial Condition	K 8

City of Carbon

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>(Before January 2016)</u>		
Dwight Sunderman	Mayor	Jan 2016
Jerry Anderson	Council Member	Jan 2016
Larry Johnson	Council Member	Jan 2016
Cathy Jones	Council Member	Jan 2016
Daryl Magnuson	Council Member	Jan 2016
Donna Rochau	Council Member	Jan 2016
Lori Shires	City Clerk	Indefinite
<u>(After January 2016)</u>		
Larry Johnson	Mayor	Jan 2018
Marlene Lee	Council Member	Jan 2018
Michael Kempton	Council Member	Jan 2018
Edward Harlow	Council Member	Resigned Mar 2016
Vicki Haley	Council Member (appointed)	Apr 2016 - Jan 2018
Daryl Magnuson	Council Member	Jan 2018
Donna Rochau	Council Member	Jan 2018
Lori Shires	City Clerk	Indefinite



Independent Accountant's Report on the Status of Periodic
Examination Findings and Recommendations

To the Honorable Mayor
and Members of City Council:

Faller, Kincheloe & Co, PLC issued a Periodic Examination Report dated September 19, 2014 on the City of Carbon, Iowa covering the period July 1, 2013 through June 30, 2014 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report dated September 19, 2014 and the current status of the City's implementation of the recommendations included in that report.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Carbon and other parties to whom the City of Carbon may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Carbon during the course of our follow-up procedures. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Faller, Kincheloe & Co, PLC

October 17, 2016

CITY OF CARBON

Report on the Status of Periodic Examination Findings and Recommendations

Findings Reported in the Periodic Examination Report dated September 19, 2014:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Cash – handling, reconciling and recording.
2. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
3. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
4. Payroll – recordkeeping, preparation and distribution.
5. Financial reporting – preparing and reconciling.
6. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

Current Status – Not corrected. The recommendation is repeated.

- (B) Bank Reconciliations – The cash and investment balances in the City's general ledger were not reconciled to bank and investment balances throughout the year. For two months reviewed, the City was not keeping track of its book balances.

Recommendation - The City should establish procedures to ensure bank and investment account balances are reconciled to the general ledger monthly and that book balances are maintained. Variances, if any, should be reviewed and resolved timely.

Current Status – Not corrected. The recommendation is repeated.

- (C) Clerk's Report – A monthly Clerk's report, including a summary of receipts, disbursements, beginning balances and ending balances by fund, is not prepared.

Recommendation – The City Clerk should prepare a monthly Clerk's report which includes a summary of receipts, disbursements, beginning balances and ending balances by fund. The City Council should review and approve of the Clerk's report monthly.

Current Status – Partially corrected. The Clerk prepares a list of bank account balances for each month that is approved by the City Council. The Clerk's list of bank

CITY OF CARBON

Report on the Status of Periodic Examination Findings and Recommendations

account balances does not include a summary of receipts, disbursements, beginning balances and ending balances by fund.

(D) City Council Minutes – The following were identified:

- All four City Council meetings tested were not signed as required by Chapter 380.7 of the Code of Iowa.
- Chapter 372.13(6) of the Code of Iowa requires the posting of the City Council minutes include the total disbursements from each city fund, a summary of all receipts and the reason for the claims. We noted that this requirement was not met by the City for all four meetings tested.

Recommendation – The City should comply with Chapters 380.7 and 372.13(6) of the Code of Iowa. In addition, the City should ensure all minutes are signed and that the posting of the City Council minutes include total disbursements from each city fund, a summary of all receipts and the reason for the claims, as required.

Current Status – Partially corrected. The Clerk is signing the minutes as required by Chapter 380.7 of the Code of Iowa. While the minutes did state the reason for each claim, they did not include total disbursements by fund and a summary of all receipts collected.

(E) Investment Policy – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Current Status – Not corrected. The recommendation is repeated.

(F) Official Depositories – A resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required.

Current Status – Partially corrected. The City has adopted a resolution naming an official depository as required by Chapter 12C.2 of the Code of Iowa. The resolution does not, however, list the maximum amount the City is able to deposit at the institution.

CITY OF CARBON

Report on the Status of Periodic Examination Findings and Recommendations

- (G) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the public works and general government functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

The City’s budget documents did not list the City’s long-term debt on the budget’s long-term debt schedule filed with the State of Iowa. The listing of the City’s debt on the long-term debt schedule in the budget is required by the State of Iowa.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. In addition, the City should ensure the City’s long-term debt is listed on the long-term debt schedule in the budget as required by the State of Iowa.

Current Status – Partially corrected. The City paid off the balance of the long-term debt on August 13, 2014. Disbursements during the year ended June 30, 2015 exceeded the amounts budgeted in the culture and recreation and general government functions.

- (H) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures...” The City’s Annual Financial Report reported receipts, disbursements and fund balances which do not agree with the City’s records. We also noted that the long-term debt was not listed on the City’s Annual Financial Report.

Recommendation – The City should ensure all amounts included in future Annual Financial Reports are supported by the amounts recorded in the City’s records including any debt.

Current Status – Not corrected. The recommendation is repeated.

- (I) Payroll – The Mayor and City Council members are being treated as independent contractors, instead of through payroll as employees.

Recommendation – The City should ensure that the Mayor and City Council members are treated as employees and paid through payroll, with all applicable taxes withheld.

Current Status – Not corrected. The recommendation is repeated.

CITY OF CARBON

Report on the Status of Periodic Examination Findings and Recommendations

- (J) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check for its bank accounts.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

Current Status – Not corrected. The recommendation is repeated.

- (K) Financial Condition – The Special Revenue, Road Use Tax Fund had a deficit balance at June 30, 2014 of \$2,087.

Recommendation – The City should investigate alternatives to eliminate the deficit to return the fund to sound financial condition.

Current Status – Corrected. At June 30, 2015, the City did not report any deficit fund balances.